

Message Text

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PAGE 01 TOKYO 08124 280420 Z

12

ACTION EB-11

INFO OCT-01 EA-11 ADP-00 CIAE-00 DODE-00 PM-07 H-02 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 COME-00 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 CEA-02 STR-08 AGR-20 INT-08

SCEM-02 RSR-01 /179 W

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R 280233 Z JUN 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4866

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E. O. 11652: N/ A

TAGS: ETRD, JA

SUBJECT: JAPANESE PRICING POLICY WITH REGARD TO EXPORTS

REF: A. STATE 78753; B. TOKYO 6463

SUMMARY: RECENT CHANGES IN MONETARY VALUES AND LABOR
WAGES SHOULD BE CHANGING ANY PRICE SPREAD BETWEEN OFFERS
OF JAPANESE AND US FIRMS IN THIRD COUNTRY MARKETS.

THERE ARE NO INDICATIONS THAT ADMINISTRATIVE GUIDANCE
IS NOW SUBSTITUTING FOR EXPORT INCENTIVES TO GIVE JAPANESE
COMPANIES A PRICE ADVANTAGE. WHILE THE ACCOUNTING SYSTEMS OF
JAPANESE AND US COMPANIES DIFFER, IT IS MORE LIKELY THAT
COMBINATION THAT DIFFERENCE, THE STRUCTURE OF THE JAPANESE
BUSINESS SYSTEM AND THE MOTIVATION BEHIND IT ARE SOURCE OF
ANY ADVANTAGE JAPANESE COMPANIES HAVE IN THEIR PRICING POLICY.
END SUMMARY.

1. WE HAVE BEEN UNABLE TO OBTAIN ANY FURTHER INDICATIONS
OF WHAT SPREAD MIGHT BE AT PRESENT TIME BETWEEN OFFERS
ON SPECIFIC ITEMS BY JAPANESE AND AMERICAN COMPANIES
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PAGE 02 TOKYO 08124 280420 Z

IN THIRD COUNTRY MARKETS. RECENT CHANGES IN RELATIVE MONETARY VALUES SHOULD PLACE US COMPANIES AT BETTER ADVANTAGE. IN ADDITION, DIFFERENCE IN COST OF LABOR IN JAPAN AND US HAS BEEN NARROWING AND WILL DO SO FURTHER WITH THIS YEAR'S 20 PERCENT INCREASE IN WAGES IN JAPAN. THESE CHANGES INDICATE THAT PRICE DIFFERENTIAL SHOULD BE CHANGING IN US FAVOR.

2. CERTAIN ADVANTAGES IMPLICIT IN THE JAPANESE BUSINESS SYSTEM ITSELF, HOWEVER, REMAIN. COMMENTS REQUESTED IN PARA 3 REFTEL LISTED BELOW IN SAME ORDER:

A. EMBASSY UNABLE OBTAIN ANY INDICATION FROM AMERICAN BUSINESS COMMUNITY THAT MITI OR OTHER GOJ AGENCIES OFFERING ADMINISTRATIVE GUIDANCE AS A SUBSTITUTE FOR PREVIOUS FORMAL EXPORT INCENTIVES AND THUS PERMIT ACCEPTANCE OTHERWISE UNPROFITABLE ORDERS. IN THIS CONNECTION EMBASSY NOTES THAT ITS ANALYSIS OF VALUE OF EXPORT INCENTIVES INDICATED THAT THEY NEVER WERE SUFFICIENTLY LARGE TO PERMIT ANYTHING LIKE THE PRICE DISCREPANCY QUOTED BY BEEBE.

JAPANESE OF COURSE PREPARED TO USE JAPAN EXPORT-IMPORT BANK AND EXPORT CREDIT FACILITIES TO ASSIST JAPANESE INDUSTRY EXPORTS. ALSO COOPERATION AND FINANCIAL SUPPORT BY GOJ TO PARTICULAR AREAS OF STRONG NATIONAL CONCERN, E. G., COMPUTER DEVELOPMENT, CONTINUES AND R & D SUBSIDIES UNDOUBTEDLY SERVE TO PERMIT RECIPIENT FIRMS TO ACCEPT LOWER PRICED ORDERS, DOMESTIC AS WELL AS FOREIGN. IN ADDITION, IN OTHER AREAS OF IMPORTANCE SUCH AS OIL EXPLORATION AND SIBERIAN RESOURCE DEVELOPMENT THERE IS CLOSE CONSULTATION AND COOPERATION BETWEEN GOVERNMENT AND INDUSTRY, ALTHOUGH HERE TOO THERE FREQUENTLY ARE SHARP DIFFERENCES OF OPINION BETWEEN INDUSTRY SECTORS AND MITI.

B. ACCORDING TO US BANKING AND ACCOUNTING SOURCES, ACCOUNTING PROCEDURES OF JAPANESE FIRMS ARE FAR DIFFERENT THAN THE US SYSTEM. ALTHOUGH BANKS ARE FULLY AWARE OF THEIR COSTS AND EFFECTIVE RATES OF LOANS, FEW COMPANIES, INCLUDING MOST MAJOR FIRMS, USE ADEQUATE COST ACCOUNTING LIMITED OFFICIAL USE

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PAGE 03 TOKYO 08124 280420 Z

PROCEDURES. BECAUSE JAPANESE FIRMS ARE GROWTH- ORIENTED RATHER THAN PROFIT- MAXIMIZERS, FINANCIAL MANAGERS OF CORPORATIONS CONCERN THEMSELVES ALMOST EXCLUSIVELY WITH CASH FLOWS AND MAY NOT FOLLOW FULL COST PRICING PRINCIPLE IN SEEKING NEW BUSINESS. BECAUSE OF THE EMPLOYMENT SYSTEM, LABOR IS CONSIDERED CLOSE TO BEING A FIXED COST. FINANCING, WHICH HAS IMPORTANT EFFECT ON COST, IS

OBTAINED AT HIGHLY VARIABLE RATES. OTHER COSTS SUCH AS MARKET DEVELOPMENT ARE SELDOM CONSIDERED. THUS, WHILE A US FIRM WILL ESTABLISH A PRICE FOR BID OR SALE IN THIRD COUNTRY BASED ON ITS TOTAL COSTS AND REASONABLE PROFIT, A JAPANESE FIRM MAY SET ITS PRICE AT LEAST PARTIALLY ON AN ENTIRELY DIFFERENT SET OF CRITERIA:

(1) ECONOMIC SITUATION AT HOME. DURING PERIODS OF RECESSION, FOR EXAMPLE, A PRICE ON CERTAIN NEW BUSINESS MIGHT BE REDUCED SIMPLY TO KEEP FIXED LABOR EMPLOYED.

(2) THE JAPANESE GROUP OR ONE OF ITS MEMBERS MAY HAVE ANOTHER UNRELATED (FUTURE) PROJECT UNDER CONSIDERATION IN THE SAME COUNTRY. THE PRICE OFFERED ONE MAY HAVE AN EFFECT ON THE APPROVAL FOR ANOTHER.

(3) THE PROJECT ONCE COMPLETED MAY RESULT IN MORE PROFITABLE BUSINESS FOR THE JAPANESE GROUP. THE MOST COMMON EXAMPLE IS THAT THE RESULTING PRODUCTION WILL BE ENTIRELY HANDLED BY THE JAPANESE COMPANY, INCLUDING SIDE BENEFITS (TRANSPORTED BY ITS SHIPS, INSURED BY ITS OWN FIRM, FINANCING FOR OPERATIONS, EQUIPMENT REPLACEMENT, ETC.)

(4) THE JAPANESE FIRMS' AFFILIATIONS. A-247 DATED MARCH 15, 1973, DESCRIBED THE HORIZONTAL KEIRETSU. SUCH CONSORTIA, WORKING TOGETHER FOR MANY YEARS, CAN COOPERATE IN PRICING FOR SPECIFIC PROJECTS TO DEGREE AN AD HOC CONSORTIUM CANNOT.

C. US BUSINESSMEN IN JAPAN STILL SPEAK OF THE OPERATIONS OF ADMINISTRATIVE GUIDANCE IN JAPAN. AS FAR AS WE ARE ABLE TO DETERMINE IT RELATES TO GOJ INFLUENCE ON SUCH AREAS AS APPROVAL FOR PLANT EXPANSION AND SHIFTS IN MARKET SHARES IN JAPAN, BOTH FOREIGN AND LIMITED OFFICIAL USE

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PAGE 04 TOKYO 08124 280420 Z

DOMESTIC. IN NO CASES HAS EMBASSY BEEN GIVEN EVIDENCE THAT SUCH GUIDANCE INCLUDES CONCESSIONARY TERMS OR SUBSIDIES IN SOME FORM THAT WOULD PERMIT JAPANESE COMPANIES TO UNDERSELL COMPETITION, EXCEPT IN FEW REMAINING RESTRICTED INDUSTRIES SUCH AS COMPUTERS.

3. ONE OTHER FACTOR SHOULD BE CONSIDERED IN DISCUSSING ABILITY JAPANESE COMPANIES TO UNDERSELL US FIRMS IN THIRD COUNTRY MARKETS. AS A-453, MAY 18, 1973, SUGGESTS, RECOGNITION MUST BE GIVEN THEM FOR PUTTING TIME, EFFORT AND MONEY IN DEVELOPING OVERSEAS BUSINESS, FOR PURSUING IT VIGOROUSLY AND FOR WILLINGNESS TO DELAY IMMEDIATE RETURNS FOR POSSIBLE LARGER RETURNS IN LONG RUN.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TOKYO08124
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730630/aaaajpqq.tel
Line Count: 174
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. STATE 78753; B. TOKYO 6463
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 09 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Nov-2001 by elyme>; APPROVED <26 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 980227
Subject: JAPANESE PRICING POLICY WITH REGARD TO
TAGS: ETRD, JA
To: EB
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005